

Explanation of Three-Tier Health Insurance Program

Nationally, health insurance costs have been rising at double-digit rates for the last four years, and this trend is expected to continue for several years to come. Over a year ago, the state's Group Insurance Board, which manages the state employee health insurance program in conjunction with the Department of Employee Trust Funds (ETF), studied ways to hold down the rapid increases in health insurance costs for state employees. The Board recommended several changes in the state employee health insurance program. One of those changes was the implementation of a 3-Tiered approach to health insurance purchasing.

Prior to the passage and signing of the biennial budget in July, state statutes required the state to pay health plan premiums of up to 105% of the lowest-cost health plan in a particular county. Any plan that bid within 5% of the lowest-cost plan was provided at no cost to employees, just like the plan that submitted the lowest bid. The 105% formula had some significant shortcomings. This formula did not create incentives for health plans to hold down their premium costs. Because plans were priced by county, employees in different counties often paid different amounts for the same health plan. Finally, the formula drove up the cost of the Standard Plan to the point that the plan became unaffordable for many state employees.

The 3-Tier model, recommended by the Group Insurance Board and adopted in the 2003-2005 biennial budget, was designed to address these problems while maintaining high-quality, low-cost health care coverage. While still maintaining a uniform medical insurance benefits package, each plan has now been assigned to one of three tiers based on the relative efficiency with which a plan is able to provide the benefits and the quality of care required by the Board. Plans were given extra credit in the tier assignment process if they scored well on measures of quality, patient safety, and customer satisfaction. This approach has created significant incentives for health plans to hold down the costs they charge the state while guaranteeing that all state employees have access to a Tier 1 plan, or SMP equivalent, statewide. In addition, monthly premium contributions for the Standard Plan have been capped.

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